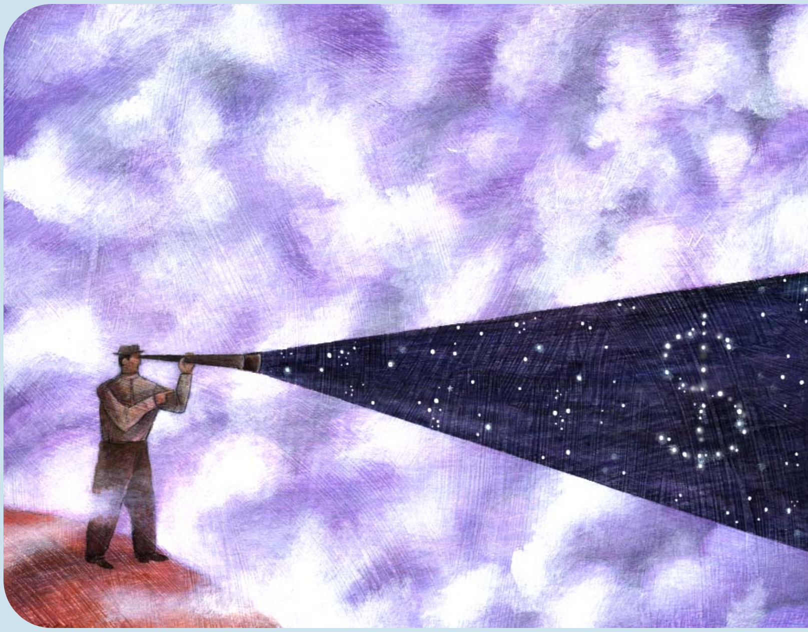

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Reduce Costs in Your Operating Budget

There are three areas every firm can examine to generate substantial "hard-dollar" savings in operations: offsite records storage, overflow copying/scanning and output management of printed documents. Here are some recommendations for reducing costs in these areas that will in turn increase the efficiency of your overall operation resulting in "soft" cost savings as well.

Offsite Records Storage

Storage of documents at an offsite location, usually by a third-party vendor, can become a major expenditure without a firmwide strategic plan to manage it. As most everyone would agree, the "paperless office" has never come to fruition. Large organizations with multiple offices in various cities often utilize a variety of offsite storage facilities and vendors. As a result, they may not be able to leverage the best possible pricing for storage. There may be a lack of consistent procedures to manage these documents among the different locations. These situations usually develop over years. Given different contract termination dates, liquidation fees, etc., it may take some time to get your organization on the right path.

To drive savings, there are several key areas to consider:

Take a snapshot of your current situation, including contracts, pricing, terms, performance standards and exit cost (hostage fees). If possible, get a feel through surveys, interviews, focus groups, etc., as to how well individual vendors are performing.

Plot a strategy to consolidate service providers to one or two vendors on a firmwide basis. This may possibly involve "buying out" the hostage fees (also known as permanent withdrawal fees) for one or more vendors.

Encourage competition through a request for proposal process. The RFP should address any hostage or permanent withdrawal fees as well as:

Performance standards
Definition of fees
Criteria for different types of charges (rush, next day, etc.)
Cancellation provisions

Based on the responses to the RFP, create an "apples to apples" comparison of costs, service levels and criteria for the different fees. If possible, obtain benchmark data on the level of pricing you should be receiving based on your annual spending. Note: In many situations, your current unit pricing is not a good criterion for your current spending due to the increase in square footage. Create a decision matrix (scorecard) for the vendor selection that takes into account all affected areas of the firm: finance, administration, records and IT. Include a vendor performance scorecard (VPS) in the contract with financial penalties if performance criteria are not met.

Monitor the awarded contract. On a monthly/quarterly basis, the vendor should submit the data for the individual performance criteria outlined in the contract. For example, the number of rushes delivered within the designated timeframe, the number of "on-time" deliveries, etc. If your vendor is doing the job correctly, they should be thrilled to supply you with this information. If they hesitate or tell you they don't have this capability, you probably don't have the right vendor.

Overflow Copying/Scanning

The next area for potential cost reduction is offsite reproduction (overflow copying or scanning). Every copy or scan that leaves the site and is sent to an overflow vendor drives up the firm's per-impression fixed costs.

Many organizations negotiate copy contracts that have minimums built in, *e.g.*, 150,000 impressions per month per machine. If your firm is like most organizations, there is no credit if you do not meet these built-in minimums. You also lose any possible cost recovery revenue when these copies are sent offsite. When is it a smart idea to send work offsite? If the spike in volume is sporadic, the deadline is unrealistic based upon your onsite capabilities or the cost of obtaining the necessary equipment to complete the job is not justified by the volume.

To manage your overflow copying and force the volume to your in-house operation, there are several recommended steps:

Upper management must agree with the policy and be willing to enforce it. In many instances, this is an education process; the wasted dollars and missed cost recovery revenue must be justified.

If you start forcing copy or scanning jobs to stay in-house, there is always the danger that the work may not be up to the standards determined by your internal customers. Make sure you have an in-house training program for the operators, a well-managed quality control process and some type of mechanism for end-user feedback.

If work must leave the site, the decision should be made by in-house services, not the end users. The overflow vendors should be selected by an RFP process that results in a primary and secondary vendor. Key criteria that should be included in your overflow contract: no minimum charges; no delivery or rush charges; if the overflow vendor is also your onsite vendor (your copy center is outsourced), then some type of credit should be given for overflow work; and all jobs sent offsite for completion, whether originating from the support services centers or from the end users, should be charged at the pricing established in the contract.

Similar to your offsite records storage contract, there should be some type of monthly/quarterly reporting based on the type of work sent offsite. For example, who sent it offsite, the number of impressions/scans, the type of work and the reason why it was sent offsite. This will assist you in recognizing trends you may want to address through the extension of hours and services or with additional equipment.

If the vendor you select is capable of national coverage and it makes sense for your firm, try to set up a nationally-based contract.

Customer service training is essential for your in-house operation. Anyone on your centralized services team who interacts with end users should have the skills and knowledge to interpret their requests, negotiate deadlines and be creative problem solvers.

Output Management of Printed Documents

Another area to examine is how you manage printing processes for your documents. With overall output volume rising at approximately seven percent per year and copy volume decreasing, what is the most cost effective and efficient way to print a document? Analyze your current situation by conducting a survey to identify:

What is driving your print output (copy, networked print, local print, multifunctional, color and black and white)?

Who is printing what?

Why are they printing it?

How are they printing it?

After you gather this information, define the costs involved with each form of output. These costs should include procurement, service, supplies and maintenance. If your firm currently is not charging for printing, you may want to factor in the cost of a print recovery system so you can charge this output back to your clients.

Even without the chargeback piece, there is still an opportunity for significant financial gain by managing where your output is produced. Most likely, your multifunctional output cost is approximately 50 percent of the cost of your print output. In other words, for every print sent to a multifunctional device, you are saving approximately $.01 - $.02 per impression. If you elect to charge these prints back to the client, assuming a 60 percent billable ratio at an average rate of $.16, you have the possibility of adding $.11 per impression to your bottom line.

After you have this data, map an output plan that is both cost-effective and efficient. Take into account how the firm is physically laid out, the workflow of the documents and print distribution. Establish a migration plan for your equipment based upon a per unit/impression cost analysis. There is usually an abundance of low-hanging fruit such as older printers that are extremely expensive to operate. It's often difficult to take equipment away from your end users; however, if you add cost-effective output capabilities, such as networking your multifunctional devices for print, it's much easier. By adding "smart capabilities" to your printer and multifunctional fleet, you will not only lower your costs, you will actually increase end-user print capacity.

One common mistake is a firm's reluctance to remove older printers that are running well. The justification is they are paid for (fully-depreciated), so why not keep them around for the end users? This argument usually ignores the service and supply costs for this equipment and will have an impact on your total output costs because they are diverting volume away from more cost-effective output devices.

In rolling out an output management model, it's extremely important to test the model in multiple settings. Out of this test, output rules must be formulated and policies instituted (*e.g.*, more than 50 pages are sent to the multifunctional device, all color copies and jobs greater then 100 pages are sent to the main center, etc.). Make sure monitoring tools are in place and set-up a system to gauge end-user feedback.

Imperative to any expense reduction plan is to know what you are currently spending. If necessary, create a competitive financial situation through a request for proposal process, negotiate a contract that contains service levels and institute a monitoring process that can deliver key indicators of performance success or failure.

Keeping expenses down is a necessary function of effective operations management. If successfully implemented, your new processes should increase the efficiency of your end users and overall support services.

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